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COMMENTS

Grey Market Imports: A Genuine Problem for the United States Trademark Owner, Customs Service, and Courts

I. INTRODUCTION

Each year billions of dollars worth of goods¹ are produced by foreign manufacturers and legitimately sold abroad under a particular trademark and are then imported into the United States and sold without permission from the foreign manufacturers or the authorized United States distributors² of these goods.³ When imported into this country, these foreign goods are sold in competition⁴ with goods of the owners of the United States trademark rights in the identical foreign marks. Such goods have come to be known as "grey market" imports.⁵ These goods are not counterfeit products, which are often called "black market" goods; rather, they are genuine goods which bear authentic trademarks.

¹ It has been estimated that the total value of the market in these goods may be as much as \$10 billion annually. See Riley, *'Gray Market' Fight Isn't Black and White*, NAT'L L.J., Oct. 28, 1985, at 1, col.3.

² Often a foreign manufacturer appoints an exclusive distributor of its goods in the United States. The foreign manufacturer usually assigns or otherwise transfers its trademark rights in those goods to the United States distributor.

³ Merchandise such as watches, electronic equipment, cameras, batteries, fragrances, automobiles, and wines, are a few examples of unauthorized genuine imports. See Riley, *supra* note 1, at 1.

⁴ The third party importer may be able to take advantage of international currency fluctuation and buy large amounts of the foreign manufacturer's goods, import them into the United States, and sell them at a price lower than the price at which the authorized United States distributor is able to sell them.

⁵ The importation by the unauthorized third party is also called "parallel importation" when the goods are being imported alongside the goods of an authorized United States distributor. See *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985); *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir. 1986), *petition for cert. filed*, 55 U.S.L.W. 3460 (U.S. Jan. 6, 1987) (No. 86-757).

The unauthorized importation of grey market goods is a widespread practice and is viewed as a grave problem for many United States trademark owners.⁶

Section 526 of the Tariff Act of 1930⁷ ("§ 526") deals with the importation of goods bearing trademarks identical to a trademark registered in the United States. Section 526 read literally prohibits the entry of all grey market goods into the United States unless the domestic trademark owner gives written consent to the importation.⁸ In order to implement § 526, however, the United States Customs Service ("Customs Service" or "Customs") has adopted regulations which provide to the domestic trademark owner less protection from the importation of grey market goods than does the literal language of § 526.⁹ These regulations allow third parties to import identically trademarked goods when "the foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control"¹⁰ Naturally, United States trademark holders have been largely dissatisfied with the limited protection afforded by the regulations and in recent years have challenged their interpretation of § 526 as being invalid.¹¹

These challenges have led to conflicting decisions among the Circuit Courts of Appeals as to the validity of the Customs regulations. Until there is a resolution of this conflict either by a statement from Congress in the form of legislation or by a decision by the Supreme Court of the United States, it is likely that the Customs Service will continue to follow

⁶ Some say the grey market may account in 1985 for as many as 65,000 luxury cars and one out of every three cameras purchased in the United States through such nationwide distributors as K-Mart Corporation and such mail order houses as New York's 47th Street Photo, Inc. Riley, *supra* note 1, at 1.

⁷ 19 U.S.C. § 1526 (1982) [hereinafter § 526]. This section prohibits the entry into the United States of "any merchandise of foreign manufacture if such merchandise . . . bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States" *Id.*

⁸ *Id.* Section 526, however, does not generally prohibit importation of goods "accompanying any person arriving in the United States when such articles are for his personal use and not for sale." 19 U.S.C. § 1526(d).

⁹ See *infra* note 40.

¹⁰ 19 C.F.R. § 133.21(c)(2) (1986). Common ownership is defined as "individual or aggregate ownership of more than 50 percent of the business entity." 19 C.F.R. § 133.2(d)(1). Common control means "effective control in policy and operations and is not necessarily synonymous with common ownership." 19 C.F.R. § 133.2(d)(2).

¹¹ See *Vivitar*, 761 F.2d 1552 (upholding the Customs regulations as a valid interpretation of § 526); *Coalition to Preserve the Integrity of Am. Trademarks [COPIAT] v. United States*, 790 F.2d 903 (D.C. Cir. 1986), *cert. granted*, 55 U.S.L.W. 3411 (U.S. Dec. 9, 1986) (No. 86-625) (declaring the Customs regulations invalid); *Olympus*, 792 F.2d 315 (explicitly disagreeing with *COPIAT* and upholding the Customs regulations as a valid interpretation of § 526).

its regulations allowing the importation of grey market goods absent a showing that the owner of the foreign trademark and the owner of the domestic trademark are independent or unrelated entities.

With Customs refusing to exclude automatically all grey market goods, domestic trademark holders have turned to the district courts for a determination of whether the goods may be excluded and damages recovered pursuant to § 526(c). This section provides for private remedies to the injured domestic trademark holder.¹² In addition to bringing suit against grey market importers under § 526(c), the domestic trademark holder may also allege a traditional trademark infringement cause of action.¹³ Bringing a trademark infringement action against a grey market importer, however, has resulted in a number of problems for the domestic trademark holder. Specifically, an attempt to obtain relief by alleging trademark infringement requires the domestic trademark holder to demonstrate that the grey market importer's use of the trademark is likely to cause confusion.¹⁴ Nonetheless, a showing of "likelihood of confusion" may be difficult for the domestic trademark holder especially in light of several decisions which may be interpreted as concluding that confusion is not possible where the imported goods are genuine.¹⁵

This Comment will discuss the alternatives available to a domestic trademark owner when faced with the importation of genuine goods. After briefly reviewing the background to the enactment of § 526 and the subsequent judicial and regulatory interpretations of the section, this Comment will examine those decisions which have ruled upon the validity of the Customs regulations as interpreting § 526.¹⁶ Next, this Comment will consider the problems faced by domestic trademark owners who decide to pursue their remedy by filing private suits in the district courts.¹⁷ The application by these courts of several well-established trademark principles to grey market import situations will then be reviewed.¹⁸ This Comment will conclude that, under the trademark principle of territoriality, "genuine goods" can cause confusion so as to be deemed infringing. Consequently, a court should not be dissuaded from

¹² See *infra* note 79.

¹³ Domestic trademark owners typically bring suit under various sections of what is popularly known as the Lanham Act. The trademark owner may also allege a cause of action for unfair competition under 19 U.S.C. § 1337 (1982).

¹⁴ See, e.g., § 32(1)(a) of the Lanham Act, 15 U.S.C. § 1114(1)(a) (1982), reprinted *infra* note 94.

¹⁵ See, e.g., *El Greco Leather Prod. Co., Inc. v. Shoe World Inc.*, 599 F. Supp. 1380, 1397 (E.D.N.Y. 1984); *Monte Carlo Shirt, Inc. v. Daewoo Int'l (Am.) Corp.*, 707 F.2d 1054, 1058 (9th Cir. 1982); *DEP Corp. v. Interstate Cigar Co., Inc.*, 622 F.2d 621, 622 n.1 (2d Cir. 1980).

¹⁶ See *infra* notes 50-101 and accompanying text.

¹⁷ See *infra* notes 94-190 and accompanying text.

¹⁸ See *infra* notes 112-44 and accompanying text.

this holding merely because other cases may be interpreted as expressing doubt as to whether confusion can arise from the importation of genuine goods.¹⁹

II. ALTERNATIVES FOR DOMESTIC TRADEMARK OWNERS

A. Protection by Exclusion at Customs

1. *Enactment of Section 526*

Before 1923, courts did not extend protection to a United States trademark owner from the importation of foreign merchandise bearing trademarks identical to a trademark registered in the United States.²⁰ The Second Circuit in *A. Bourjois & Co., Inc. v. Katzel*²¹ followed precedent by allowing the importation of such "genuine goods." In *Katzel*, a French cosmetic manufacturer which was in the business of importing its face powder bearing the trademark "Java" into the United States, sold its business, its goodwill, and the United States trademarks to the plaintiff.²² Later, the defendant, not a party to the contract, began purchasing the "Java" face powder from the French manufacturer and importing it into the United States, selling it at a large profit. The plaintiff brought suit alleging trademark infringement under Section 27 of the Trademark Act of 1905, now Section 42 of the Lanham Act.

The plaintiff showed that it had spent large sums of money and considerable effort in order to build up goodwill for the plaintiff's business in the United States. Nonetheless, the Court of Appeals for the Second Circuit held that a third-party importer's unauthorized use of the same trademark on imported goods did not constitute trademark infringement as long as the goods were genuine.²³ As the goods sold by the defendant accurately identified the foreign manufacturer of the product, the court found no violation of the plaintiff's trademark rights.²⁴

The Supreme Court of the United States eventually reversed the decision of the Second Circuit.²⁵ Before the Supreme Court decided the issue, however, Congress enacted § 526 of the Tariff Act in response to

¹⁹ See *infra* notes 145-90 and accompanying text.

²⁰ See *Fred Gretsch Mfg. Co. v. Schoening*, 238 F. 780 (2d Cir. 1916), where the court held that a registered United States trademark for violin strings was not infringed by one who bought in Germany the genuine violin strings labeled with that trademark and sold them in the United States with the mark intact. See also *Hunyadi Janos Corp. v. Stoeger*, 285 F. 861 (2d Cir. 1922).

²¹ 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923).

²² *Id.* at 539.

²³ *Id.* at 543.

²⁴ *Id.* at 540.

²⁵ See *A. Bourjois & Co., Inc. v. Katzel*, 260 U.S. 689 (1923).

the Second Circuit's ruling.²⁶ Section 526 thus made it unlawful to import into the United States any article which "bears a trademark owned by a citizen of, or by a corporation or association created or organized within the United States."²⁷

The legislative history of § 526, however, reveals that, when enacting this section, Congress apparently misunderstood the issue involved in *Katzel*.²⁸ Congress erroneously believed that the situation in *Katzel* involved a foreign manufacturer's attempt to take advantage of its assignment of trademark rights to a United States company by later capitalizing on the goodwill which had been developed painstakingly in the United States by the United States trademark holder.²⁹ However, these were not the circumstances involved in the *Katzel* case. In *Katzel* there was no importation of the trademarked goods by the foreign manufacturer and seller, rather there was importation by a third party unrelated to the transaction.³⁰

2. The Customs Service's Interpretation of Section 526

In 1931, Customs issued regulations prohibiting entry into the United States of all "imported merchandise bearing a genuine trademark" which had been properly registered by the holder of the domestic mark.³¹ Thus, at this time, absent the domestic trademark owner's con-

²⁶ See Tariff Act of 1922, ch. 356, § 526, 42 Stat. 975 (current version at 19 U.S.C. § 1526(a) (1982)).

²⁷ *Id.*

²⁸ Note, *Trademark Infringement: Power of an American Trademark Owner to Prevent the Importation of The Authentic Product Manufactured by a Foreign Company*, 64 YALE L.J. 557, 566 nn.48-51 (1955) (reviewing the legislative history and application of § 526 of the Tariff Act of 1922, and concluding that this section was passed specifically to protect the independent United States trademark owner from the importation of genuine goods). See also Atwood, *Import Restrictions on Trademarked Merchandise — The Role of the United States Bureau of Customs*, 59 TRADEMARK REP. 301, 304 (1969); Note, *Discrimination Against Foreign Owners of U.S. Trademarks Under 19 U.S.C. § 1526*, 18 GEO. WASH. J. INT'L L. & ECON. 423, 427 (1984).

²⁹ See 62 CONG. REC. 11,602, 11,605 (Aug. 19, 1922). Senator McCumber, in arguing for the enactment of § 526, stated that the court in *Katzel* "has held that a trade-mark did not protect a party at all against importations of the article from the very firm which sold it . . ." *Id.*

Senator Sutherland emphasized that the scope of § 526 was to be limited to the prevention of fraud on "American citizens who have purchased trade-marks from foreigners . . . when these foreigners deliberately violate the property rights of those to whom they have sold these trademarks It prevents, and its only aim is to prevent, a palpable fraud." *Id.* at 11,603.

³⁰ See *Katzel*, 275 F. at 541. Shortly after § 526 became law, the Supreme Court reversed the Second Circuit decision in *Katzel* without mentioning the enactment of § 526 by Congress. See *Katzel*, 260 U.S. at 692. The Court held that the importation of trademarked goods from a foreign manufacturer could be enjoined when the foreign manufacturer had sold the mark to the plaintiff, regardless of the fact that the trademarked article was genuine.

³¹ Customs Regulations of 1931, art. 513(a) provides:

Prohibition of Entry — Entry is prohibited of imported merchandise bearing a genuine trade-

sent, the regulations prohibited importation of all goods bearing a trade-mark identical to a registered United States trademark.³² In 1936, however, the Customs Service changed the regulations to allow for the importation of genuine goods if the foreign trademark and the United States trademark were "owned by the same person, partnership, association or corporation."³³ In 1953, Customs further limited the protection it had previously afforded to United States trademark owners by ruling that the importation of genuine goods was allowed if the foreign trademark were owned by a "related company" of the United States trademark owner.³⁴ In addition, the regulations required disclosure of the existence of such related companies.³⁵

In 1959, Customs returned to the less-restrictive 1936 standards, apparently in response to a case brought in the Southern District of New York.³⁶ Although Customs deleted all reference to "related companies"

mark when such trade-mark is recorded with the Treasury Department and registered under the trade-mark law of February 20, 1905, if compliance is had with all provisions of Section 526 of the Tariff Act of 1930, provided the period of protection of such trademark has not expired.

See generally Atwood, *supra* note 28 (detailing the history of the Customs regulations).

³² See *Sturges v. Clark D. Pease, Inc.*, 48 F.2d 1035 (2d Cir. 1931); *Vivitar*, 761 F.2d at 1566.

³³ Specifically, Customs Regulations of 1936, art. 518, as amended, states:

(a) Merchandise of foreign or domestic manufacture is prohibited importation when it bears a name or mark which copies or simulates a trade-mark or trade name entitled to the protection of the Trade-Mark Act of 1905 or the Trade-Mark Act of 1920, unless such merchandise is imported by or for the account of, or with the written consent of, the owner of the protected trade-mark or trade name.

(b) A name or mark (including a name or mark which is a genuine trade-mark or trade name in a foreign country) on an article of foreign manufacture identical with a trade-mark or trade name protected by the trade-mark laws of the United States, as well as a name or mark on an article of foreign or domestic manufacture counterfeiting such protected trade-mark or trade name, or so resembling such protected trade-mark or trade name as to be likely to cause confusion or mistake in the minds of the public or to deceive purchasers, shall be deemed for the purposes of these regulations to copy or simulate such protected trade-mark or trade name. However, merchandise manufactured or sold in a foreign country under a trade-mark or trade name, which trade-mark is registered and recorded, or which trade name is recorded under the trade-mark laws of the United States, shall not be deemed for the purpose of these regulations to copy or simulate such United States trade-mark or trade name if such foreign trade-mark or trade name and such United States trade-mark or trade name are owned by the same person, partnership, association or corporation.

T.D. 48,537, 70 Treas. Dec. 336, 337 (1936).

³⁴ 18 Fed. Reg. 8688 (1953) (codified at 19 C.F.R. § 11.14 (1953)), *repealed by* T.D. 54,932, 94 Treas. Dec. 433 (1959). "Related company" was to be defined as in § 45 of the Lanham Act of 1946: any person who "legitimately controls or is controlled by the registrant . . . in respect to the nature and quality of the goods or services in connection with which the mark is used." 15 U.S.C. § 1127 (1982).

³⁵ 18 Fed. Reg. 8688 (1953) (codified at 19 C.F.R. § 11.15 (1953)), *repealed by* T.D. 54,932, 94 Treas. Dec. 433 (1959). Because Customs had no knowledge of the existence of such relationships before this disclosure requirement, those trademark owners who had recorded with Customs before 1953 were able to continue to exclude goods bearing an identical trademark which originated from a "related" foreign supplier. Atwood, *supra* note 28, at 310.

³⁶ In *United States v. Guerlain, Inc.*, 155 F. Supp. 77 (S.D.N.Y. 1957), *prob. juris. noted*, 355 U.S. 937, *vacated and remanded*, 358 U.S. 915 (1958), *dismissed*, 172 F. Supp. 107 (S.D.N.Y. 1959),

from the regulations, protection from the importation of genuine goods continued to be denied where the same entity owned the foreign and the United States trademarks.³⁷

The Customs Service revised the regulations, once again, in 1972.³⁸ The new provisions allowed the importation of foreign-made goods bearing trademarks identical to registered United States marks if both the foreign and United States trademark owners were parent/subsidiary corporations or companies otherwise subject to common ownership and control or when the goods were imported by foreign manufacturers authorized to use the mark by the United States trademark owner.³⁹ The 1972 regulations basically have remained unchanged and are still in force.⁴⁰

3. Recent Challenges to Customs Regulations

Recently the Customs regulations have been criticized by two federal courts⁴¹ and actually invalidated by a third.⁴² In *Bell & Howell*:

the government brought suit against a United States distributor of French perfume alleging that the distributor had created an illegal monopoly in violation of the Sherman Act by using the exclusionary provisions of § 526 to prevent others from importing the French perfume bearing the United States distributor's trademark. The government argued that the protection afforded to United States trademark owners should not be given to the owner of the trademark in this case because the owner of the United States mark was part of a single international business enterprise with a foreign company. The court agreed with the position taken by the government holding that § 526 may only give advantage to a United States trademark owner who was independent from the foreign owner of the mark. *Id.* at 80.

Despite its victory in the district court, the government moved to vacate the judgment so that it could move to dismiss the case. The government explained its action by stating that it was the practice of Customs to allow exclusions of genuine goods in this type of situation and that it would seek legislation which would provide for the limiting of the protection of § 526 to United States companies which were independent of the foreign manufacturers of the goods which it imported. This legislation, however, was never enacted. See Bicks, *Antitrust and Trademark Protection Concepts in the Import Field*, 49 TRADEMARK REP. 1255, 1259 (1959). See also Atwood, *supra* note 28, at 307.

³⁷ See Atwood, *supra* note 28, at 310.

³⁸ T.D. 72-266, 6 Cust. B. & Dec. 433 (1972).

³⁹ *Id.*

⁴⁰ 19 C.F.R. § 133.21 (1986), in relevant part, provides:

(b) *Identical trademark.* Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.

(c) *Restrictions not applicable.* The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:

(1) Both the foreign and U.S. trademark or trade name are owned by the same person or business entity;

(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control . . . ;

(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner . . .

⁴¹ See *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 548 F. Supp. 1063 (E.D.N.Y. 1983),

Mamiya Co. v. Masel Supply Co.,⁴³ the plaintiff was a United States company which owned the United States trademark rights in foreign-made photographic equipment and was the exclusive importer and distributor of these goods in the United States. The plaintiff sought an injunction against the defendant which imported genuine cameras bearing the plaintiff's trademark which the defendant had acquired in the country of foreign manufacture.⁴⁴ The district court, issuing an injunction, found that the regulations did not allow the importation of the grey market goods in this particular case because there was no common ownership or common control as defined in the regulations.⁴⁵ More important, however, the court expressed doubt as to the validity of the regulations by noting that "the variance between the literal language of [§ 526] and the current interpretations adopted by the Customs Service has prompted more than one commentator to question whether the regulations implementing the statute are ultra vires."⁴⁶

Similarly, in *Osawa & Co. v. B & H Photo*,⁴⁷ the plaintiff, a United States trademark owner, sought to enjoin the defendant from importing goods of the same manufacture and bearing the identical trademark. Upon examination of § 526, the court questioned whether the Customs Service exceeded its authority in promulgating the regulations.⁴⁸ The court also questioned the wisdom and necessity for the regulations and stated that they represented an effort on the part of Customs to implement its perception of antitrust policy without authority from Congress.⁴⁹

The most recent and serious blow to the Customs regulations occurred in the decision rendered by the United States Court of Appeals for the District of Columbia Circuit in *Coalition to Preserve the Integrity of American Trademarks [COPIAT] v. United States*.⁵⁰ This decision re-

vacated and remanded, 719 F.2d 42 (2d Cir. 1983); *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163 (S.D.N.Y. 1984).

⁴² See *COPIAT*, 790 F.2d 903.

⁴³ 548 F. Supp. 1063.

⁴⁴ *Id.* at 1065.

⁴⁵ *Id.* at 1079.

⁴⁶ *Id.* (citing Kuhn, *Remedies Available at Customs for Infringement of a Registered Trademark*, 70 TRADEMARK REP. 387, 388 (1981) and Derenberg, *Current Trademark Problems in Foreign Travel and the Import Trade*, 39 TRADEMARK REP. 674, 705 n.80 (1959)).

⁴⁷ 589 F. Supp. 1163. This was the second time the plaintiff brought suit for an injunction against grey market importers, the first suit being decided against the plaintiff in *Bell & Howell*, 719 F.2d 42. Sometime after the *Bell & Howell* case, the plaintiff changed its name from Bell & Howell: *Mamiya Co. to Osawa & Co.*

⁴⁸ *Id.* at 1177.

⁴⁹ *Id.*

⁵⁰ 790 F.2d at 904.

versed a district court ruling which upheld the Customs regulations as an interpretation fully consistent with the intent of Congress in enacting § 526 and a reflection of the Customs Service's "long standing and consistent" interpretation of the section.⁵¹ In the *COPIAT* case, United States companies sought a mandatory order directing the Customs Service to exclude grey market imports from entry into the United States. The plaintiffs maintained that § 526 of the Tariff Act gave them an unqualified right to such an exclusion and that the Customs Service regulations implementing § 526 were inconsistent with the Act because the regulations allowed the importation of genuine goods manufactured by the trademark owners' foreign subsidiaries or licensees but imported by unrelated third parties.⁵²

The Court of Appeals held that the Customs regulations are invalid on two alternative grounds.⁵³ First, the court expressly disagreed with the district court's conclusion that the Customs regulations must be upheld as "a reasonable interpretation of the statute by the agency charged with its enforcement."⁵⁴ The court stated that the lower court misapprehended the doctrine of deference to an agency's interpretation of its governing statute.⁵⁵ The court emphasized that before the doctrine of deference to agency interpretation becomes operative it must be apparent that Congress has not already addressed the question at issue.⁵⁶ A court, therefore, must first exercise its independent judgment on the question of whether the statute "unambiguously expresses congressional intention on the matter at issue."⁵⁷ If the statute expresses clear congressional intent, then the court must give effect to that intent regardless of the current interpretation given to the statute by an agency.⁵⁸

The court examined the language, purpose, legislative history, and the various contemporaneous interpretations of the statute and concluded that § 526 should not be limited in its protection by the Customs regulations.⁵⁹ The court found that Congress clearly stated its intent in

⁵¹ See *COPIAT v. United States*, 598 F. Supp. 844, 852 (D.D.C. 1984). To support its conclusion, the district court stated that in 1978 Congress specifically noted the practice at Customs of allowing such importations and decided not to change this practice while, at the same time, changing other parts of § 526. Thus, the court concluded, "Congress must be deemed to have approved the interpretation and practice under Section 526." *Id.*

⁵² 790 F.2d at 904.

⁵³ *Id.* at 908.

⁵⁴ *Id.*

⁵⁵ *Id.*

⁵⁶ *Id.* (citing *Chevron U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837, 843 (1984)).

⁵⁷ *Id.*

⁵⁸ *Id.*

⁵⁹ *Id.* at 913.

§ 526, Congress defined the relevant statutory terms of that section, and Congress did not delegate authority to the Customs Service “to adjust the scope of the statute in response to its perceptions of changing economic circumstance.”⁶⁰ The court stated that, in 1930, § 526 applied to all situations within its terms and concluded that the statute’s meaning in 1930 is the meaning it should be given in 1986.⁶¹

The court’s second basis for invalidating the Customs regulations was that the regulations did not represent a reasonable interpretation of § 526.⁶² Indeed, the court found that the Customs Service interpretation of § 526 did not display “the necessary ‘thoroughness, validity and consistency’ to merit judicial acceptance.”⁶³ The court based this conclusion on a number of factors. First, the court noted that the Customs Service did not adopt its interpretation at the same time Congress enacted § 526.⁶⁴ In fact, the first set of Customs regulations announcing the present interpretation implemented another statute — § 27 of the Trademark Act of 1905 — not § 526 of the Tariff Act.⁶⁵ Second, the court found the Customs interpretation supported by vacillating reasoning. In particular, the court found that, since the 1950s, the Customs Service’s interpretation has been motivated largely by antitrust concerns raised by a multinational corporation’s use of a United States subsidiary to stop competition in the distribution of products bearing its trademark.⁶⁶

The appellate court rejected the district court’s conclusion that the history behind the regulations evidences “‘a pattern of legislative acquiescence . . . indicat[ing] acceptance by Congress of the Customs Service’s interpretation of Section 526’”⁶⁷ By disapproving of this statement and its underlying reasoning, the Court of Appeals stated that unsuccessful efforts to replace or modify § 526 would, in fact, suggest the contrary: that Congress *rejected* a narrow view of the section’s scope.⁶⁸ These conclusions led the court to denounce the Customs regulations as contrary to § 526 and, therefore, unlawful.⁶⁹

⁶⁰ *Id.*

⁶¹ *Id.*

⁶² *Id.* at 917.

⁶³ *Id.* at 916 (quoting *Federal Election Comm’n. v. Democratic Senatorial Campaign Comm’n.*, 454 U.S. 27, 37 (1981)).

⁶⁴ *Id.*

⁶⁵ *Id.*

⁶⁶ *Id.* at 917.

⁶⁷ *Id.*

⁶⁸ *Id.* (emphasis supplied by the court).

⁶⁹ *Id.* at 918.

4. *Valid Customs Regulations: The Vivitar and Olympus Decisions*

Despite criticisms by courts and commentators,⁷⁰ two courts, when faced directly with the question of the validity of the Customs regulations, have declined to declare them invalid.⁷¹ In *Vivitar Corp. v. United States*⁷² the court addressed many of the criticisms of the Customs regulations and agreed with a number of them. Nevertheless, the court declined to invalidate the regulations.

The court in *Vivitar* first rejected the argument that Congress intended to limit § 526 to bar the importation of genuine goods only in cases where the facts are similar to those in *Katzel* or where there actually existed a technical trademark infringement.⁷³ Instead, the court concluded that "no limitations based on indications of Congressional intent at the time of the enactment can be read into the statute itself."⁷⁴ Furthermore, the court disagreed with the argument that the current Customs regulations reflect "a long standing administrative interpretation" of § 526.⁷⁵ After reviewing the series of regulations issued by Customs between 1923 and 1972,⁷⁶ the court concluded that Customs has had "continuing questions concerning the reading of the statute" and that, over the years, Customs has "adjusted its regulations to reflect the few judicial decisions which interpreted the law."⁷⁷ The court also rejected the argument that Congress accepted the regulations through a pattern of legislative acquiescence, stating: "Legislation by total silence is too tenuous a theory to merit extended discussion."⁷⁸

Despite these conclusions, the court held the regulations valid. Nonetheless, the court emphasized that the Customs Service's decision

⁷⁰ See Bicks, *supra* note 36; Dam, *Trademarks, Price Discrimination, and the Bureau of Customs*, 57 TRADEMARK REP. 14 (1967). These commentators argue that exclusion of genuine goods through the Customs regulations gives the domestic trademark owner an unwarranted exemption from the antitrust laws.

⁷¹ See *Vivitar*, 761 F.2d 1552; *Olympus*, 792 F.2d 315.

⁷² 761 F.2d at 1552. In this case, the plaintiff was in the business of selling photographic equipment in the United States and abroad. *Id.* at 1556. The products which the plaintiff sold and distributed were manufactured primarily by Japanese manufacturers. The plaintiff had established a network of independent authorized dealerships in the United States which bought the equipment from the plaintiff for resale to the public. The same products bearing the plaintiff's authentic trademark, "Vivitar," were purchased abroad by third parties who imported them into the United States and sold them through discount outlets. *Id.*

⁷³ *Id.* at 1565.

⁷⁴ *Id.*

⁷⁵ *Id.*

⁷⁶ For a brief summary of the Customs regulations, see *supra* notes 31-40 and accompanying text.

⁷⁷ 761 F.2d at 1568.

⁷⁸ *Id.*

not to exclude automatically all grey market goods does not prevent a trademark owner from subsequently pursuing private remedies available under § 526(c)⁷⁹ against the importer and, if successful, having the goods excluded.⁸⁰ The Customs regulations, therefore, are not to be considered controlling interpretations of the scope of protection provided by § 526.⁸¹ Rather, the regulations only define the role of Customs in initiating the administrative enforcement of § 526.⁸² Where protection under the statute is “unclear or depends upon the resolution of complex factual situations, Customs may decline to impose sua sponte the extreme sanction of exclusion” and may leave such cases for determination by the district courts.⁸³ The court reasoned that, just because the Customs regulations do not provide for an initial exclusion in a particular case in which the domestic trademark owner eventually prevails in a private action brought in district court, does not mean that the regulations must be declared invalid.⁸⁴

More recently, the Court of Appeals for the Second Circuit in *Olympus Corporation v. United States*⁸⁵ upheld the validity of the Customs regulations in the face of a challenge by a United States subsidiary of a foreign manufacturer of identically trademarked goods.⁸⁶ In doing so, the court explicitly disagreed with the Federal Circuit’s conclusion in *Vivitar* that the regulations have not been sufficiently consistent throughout the years to warrant a finding of “long-standing administrative interpretation” of the statute.⁸⁷ The court in *Olympus*, like the district court in *COPIAT*, pointed out that, since 1951, the Customs Service has issued letters reflecting a consistent policy of allowing importation by any third party of trademarked goods introduced into commerce by the foreign trademark owner if the United States trademark owner and the owner of

⁷⁹ This section provides that any person dealing in merchandise bearing a registered United States trademark: “may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trademark and shall be liable for the same damages and profits provided for wrongful use of a trademark” Under particular named sections of the Lanham Act. 19 U.S.C. § 1526(c). The court in *Vivitar* held that a domestic trademark owner may bring suit under this section in district court despite a finding at Customs that the identically marked goods imported by a third party should not be excluded. See *Vivitar*, 761 F.2d at 1570. Accord *Olympus*, 792 F.2d at 320.

⁸⁰ 761 F.2d at 1570.

⁸¹ *Id.*

⁸² *Id.* at 1569.

⁸³ *Id.* at 1570.

⁸⁴ *Id.*

⁸⁵ 792 F.2d 315.

⁸⁶ *Id.* As in the typical grey market scenario, the United States subsidiary was the exclusive distributor for its Japanese parent corporation in the United States and it owned the United States trademark in the goods it distributed.

⁸⁷ *Id.* at 319.

the foreign rights in the trademark are the same.⁸⁸ Furthermore, the court in *Olympus* concluded that Congress' failure to act by altering Customs' approach evidences Congress' acceptance of Customs Service practice.⁸⁹ The court concluded that, "in light of the long acceptance of the regulations, change is a matter for the legislative or executive branch and not the judiciary."⁹⁰

In arriving at this conclusion, the court specifically addressed the recent decision of the Court of Appeals for the District of Columbia Circuit in *COPIAT*.⁹¹ The *Olympus* court expressly disagreed with the court's conclusion in *COPIAT* that the Customs Service's interpretation of § 526 "does not display the necessary 'thoroughness, validity and consistency to merit judicial acceptance.'"⁹² Moreover, like the court in *Vivitar*, the court in *Olympus* concluded that the Customs Service's interpretation of § 526 does not define the limits of protection given by the section but merely limits the Customs Service's duty to enforce the section by excluding all grey market imports.⁹³

B. Private Actions

With the Courts of Appeals for the Federal and Second Circuits upholding the validity of the Customs regulations, domestic trademark owners unable to have grey market goods excluded by Customs will seek relief in private suits brought in the district courts. These cases often allege that the importation of genuine goods have infringed the domestic trademark owner's rights in the identically marked goods.⁹⁴ The funda-

⁸⁸ *Id.* (citing Customs Service Letters dated Mar. 23, 1951, July 2, 1962, Mar. 19, 1963, Dec. 11, 1968, and June 28, 1971).

⁸⁹ *Id.* at 320. The court noted that Congress was aware that the Customs Service permitted the importation of many grey market goods in 1954 when it considered amending the customs laws and even noted the practice in 1978 while amending other parts of § 526 but chose not to address the issue or alter the practice by Customs. *Id.* at 320-21.

⁹⁰ *Id.* at 321.

⁹¹ *Id.* at 321 n.1.

⁹² *Id.*

⁹³ *Id.* at 320.

⁹⁴ A statute under which a United States trademark owner often seeks relief for trademark infringement is § 32(1)(a), 15 U.S.C. § 1114(1)(a). This section provides that anyone who uses in commerce:

any reproduction, counterfeit, copy, or colorable imitation of a registered trademark in connection with the sale, offering for sale, distribution, or advertisement of any goods . . . which such use is likely to cause confusion or to cause mistake, or to deceive . . . shall be liable in a civil action by the registrant

It should be noted that this section as well as § 42 of the Lanham Act, 15 U.S.C. § 1124, extends protection to the domestic trademark holder from use of a trademark which "copies" or "simulates" the registered domestic trademark. Reading these sections literally, it appears as though they do not apply to situations which involve the importation of genuine goods bearing the manufacturer's genuine trademark. In *Katzel*, however, the Supreme Court held that the importation of genuine goods

mental issue in any trademark infringement suit is that of consumer confusion.⁹⁵ Thus, the domestic trademark owner bringing an action for trademark infringement is required to demonstrate that the defendant grey market importer's use of the identical mark is likely to cause confusion. In defending their cases, importers of grey market goods have often argued that the importation and sale of genuine goods cannot be considered a trademark infringement since the importation of such goods cannot possibly cause confusion.⁹⁶ On the other hand, plaintiff domestic trademark holders contend that the importation of these goods may cause confusion regardless of the genuineness of the articles.⁹⁷

Some cases addressing this issue have been read as expressions of uncertainty as to whether imports may be infringing if they cause or are likely to cause consumer confusion, mistake, or deception.⁹⁸ Through the application of the trademark principle of territoriality,⁹⁹ other courts have found that genuine goods may indeed cause consumer confusion.¹⁰⁰ The remainder of this Comment will review the application of the princi-

may be held a trademark infringement under § 27 (now § 42 of the Lanham Act) and could be barred from importation despite the statute's language of "copy" or "simulate." The court followed the trademark theory of "territoriality" which states that the function of a trademark is to identify the source which stands behind the goods sold under the trademark, that is, the United States trademark holder distributing the goods in the United States, and not necessarily the foreign manufacturer. A third party importer selling the goods under the same trademark would infringe the United States trademark owner's rights because the public would attribute such goods to the United States markholder.

Subsequently, the Supreme Court in *A. Bourgois & Co., Inc. v. Aldridge*, 263 U.S. 675 (1923), following the *Katzel* decision, found that a third party's importation of genuine goods constituted an infringement of a domestic trademark owner's rights in the trademark despite the fact that the goods involved were genuine and were obtained from the same manufacturer. Recent courts have followed these early decisions and have recognized that an action may lie against importers of genuine goods under §§ 32 and 42 of the Lanham Act despite their language of "copy" or "simulate." See *Weil Ceramics & Glass, Inc. v. Dash*, 618 F. Supp. 700 (D.N.J. 1985). But see *Olympus*, 792 F.2d at 321 (stating in dictum that § 42 of the Lanham Act does not apply to bar importation of genuine goods but only to bar importation of goods which "copy" or "simulate" trademarked goods).

A domestic trademark owner may also allege a cause of action for unfair competition under § 337, 19 U.S.C. § 1337 (1982).

⁹⁵ See 1 J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 2:6 (2d ed. 1984), for the proposition that:

Trademark law has many presumptions, assumptions and a few overriding public policies, but the central key is consumer perception. Analogies to other forms of "property" from real estate to patents and copyrights falter on the basic definition of . . . trademark "property. . . ." The property in a trademark is the right to prevent confusion.

⁹⁶ See, e.g., *Osawa*, 589 F. Supp. 1163; *Weil*, 618 F. Supp. 700.

⁹⁷ *Id.*

⁹⁸ See *Monte Carlo*, 707 F.2d 1054; *El Greco*, 599 F. Supp. 1380; *DEP*, 622 F.2d 621; *Bell & Howell*, 719 F.2d 42.

⁹⁹ 2 S. LADAS, PATENTS, TRADEMARKS AND RELATED RIGHTS 1340 (1975). See *infra* notes 102-08 and accompanying text for a discussion on the principle of territoriality.

¹⁰⁰ See *Katzel*, 260 U.S. 689; *Osawa*, 589 F. Supp. 1163; *Weil*, 618 F. Supp. 700.

ple of territoriality by the courts. The Comment will argue that the use of this principle to find that genuine goods can cause confusion should not be questioned seriously despite those decisions which have been interpreted as concluding otherwise.¹⁰¹

1. The Principles of Territoriality and Universality

According to the principle of territoriality, the protection which a trademark receives in a particular country is determined by the law of that country.¹⁰² Thus a trademark may have a separate legal existence in each country in which it is used.¹⁰³ The principle of territoriality also recognizes that a trademark does not merely specify the source of origin of the product it marks.¹⁰⁴ Rather, a primary function of a trademark is to symbolize the local goodwill of the trademark owner whose reputation backs the particular product in that specific locale.¹⁰⁵ In other words, the territoriality principle recognizes that trademark rights are created to maintain and protect a trademark owner's established goodwill and that marks which are identical are not necessarily the same trademarks in law.¹⁰⁶

The application of this principle is particularly important. An importer of goods manufactured in a foreign country may own trademark rights in the goods it imports so long as there has been an assignment or transfer to the importer of the manufacturer's trademark rights in the United States and an agreement that the trademark may be registered by the importer.¹⁰⁷ Thus, the importation and sale of genuine goods in the United States by the foreign manufacturer or other third party would be considered infringing under the principle of territoriality if the importation confused the public and led them to believe that the owner of the identical domestic trademark stood behind the imported product.¹⁰⁸

In contrast, under the trademark principle of universality, the importation into the United States of goods manufactured abroad under a

¹⁰¹ See *infra* notes 145-90 and accompanying text.

¹⁰² Beir, *Territoriality of Trademark Law and International Trade*, 1 INTERNATIONAL REVIEW OF INDUSTRIAL PROPERTY AND COPYRIGHT LAW [IIC] 48, 59 (W. Ger. 1970); S. LADAS, *supra* note 99.

¹⁰³ Derenberg, *Territorial Scope and Situs of Trademarks and Goodwill*, 47 VA. L. REV. 733, 734 (1961); *Weil*, 618 F. Supp. at 705.

¹⁰⁴ *Weil*, 618 F. Supp. at 705; see Derenberg, *supra* note 103, at 736.

¹⁰⁵ See *Weil*, 618 F. Supp. at 705. See generally 3 R. CALLMAN, UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES §§ 17.01-.04 (4th ed. 1983) (discussing the various functions which a trademark performs).

¹⁰⁶ See *Katzel*, 260 U.S. at 700.

¹⁰⁷ *Weil*, 618 F. Supp. at 705.

¹⁰⁸ *Id.*

particular trademark would not infringe the rights of the owner of the identical mark in the United States. The principle of universality states that trademark rights are an extension of a personality right; this right is considered to be so closely associated with the first user of the mark that the trademark is entitled to universal protection beyond the boundaries of the originating country.¹⁰⁹ As long as the trademark is lawfully affixed to a product in a foreign country, the product will lawfully bear that mark everywhere it goes and will not be infringed if imported into a country where another party holds the exclusive right to use the mark.¹¹⁰ Furthermore, as the imported goods are genuine and are marked to identify their "source of origin" (i.e., their foreign manufacturer), the importation of these goods into the territory of the United States trademark owner could not possibly deceive or confuse the public.¹¹¹ Hence, absent the ability of these goods to cause confusion, it would be impossible for the importation of genuine goods to constitute a trademark infringement.

2. *Application of the Principles*

An early decision allowing grey market importation based on the universality principle was *Apollinaris Co. v. Scherer*.¹¹² In this case, the plaintiff had acquired from a Hungarian manufacturer the sole distributorship right as well as the United States trademark on "Hunyadi Janos," a special brand of mineral water.¹¹³ The defendant, however, began importing genuine "Hunyadi Janos" water into the United States after purchasing it in the Federal Republic of Germany. Applying the universality principle, the court found that the defendant grey market importer did not infringe the plaintiff's trademark rights because the defendant was importing and selling genuine goods which could not cause public confusion as to the source of the product's origin.¹¹⁴

This view of grey market imports with regard to trademark law changed shortly after the *Apollinaris* decision with the case of *Katzel*¹¹⁵ where the court applied the principle of territoriality in lieu of the universality principle. The district court held that the defendant had infringed the plaintiff's trademark rights by selling certain cosmetic articles bearing the mark "Java" in the territory where the plaintiff had established

¹⁰⁹ Derenberg, *supra* note 103, at 734.

¹¹⁰ *Id.* See also *Weil*, 618 F. Supp. at 705.

¹¹¹ R. CALLMAN, *supra* note 105, § 21.17.

¹¹² 27 F. 18 (C.C.S.D.N.Y. 1886).

¹¹³ *Id.* at 19.

¹¹⁴ *Id.* at 21.

¹¹⁵ 274 F. 856 (S.D.N.Y. 1922). See *supra* note 21-24 and accompanying text for a discussion of the facts of the *Katzel* case.

itself as the exclusive owner of the trademark.¹¹⁶ The Court of Appeals reversed the lower court's decision, however, holding that, since the defendant's goods were genuine "Java" products, there could be no public confusion and, therefore, no trademark infringement.¹¹⁷

The Supreme Court agreed with the trial court's decision and reversed the Court of Appeals, recognizing that a trademark infringement action could lie against an importer of genuine goods.¹¹⁸ The court found that even though both the plaintiff's and defendant's "Java" goods had the same source of origin, the plaintiff possessed a separate and independent trademark.¹¹⁹ The plaintiff had established its own market and independent goodwill; thus, the plaintiff had the right to preclude the importation of the defendant's genuine "Java" goods.¹²⁰

Since the *Katzel* decision, courts¹²¹ and commentators¹²² have generally recognized territoriality as the prevailing principle of trademark law.¹²³ Congress recognized that a trademark may have a separate legal existence in each individual country in which a local trademark owner has developed independent goodwill. In 1962, Congress enacted an amendment to Section 32 of the Lanham Act¹²⁴ which codified this principle. Prior to this amendment, the section required that a plaintiff in a trademark infringement action show consumer confusion specifically as to the "source of origin" of the allegedly infringing products.¹²⁵ Congress eliminated the "source of origin" language, thereby accepting the principle of territoriality and recognizing that a trademark serves as more than an indication of the physical origin of a product. This amendment allows a plaintiff to maintain a cause of action for trademark infringement by showing likelihood of confusion of any sort, not just likelihood of confusion as to source of origin.¹²⁶

¹¹⁶ *Id.* at 859.

¹¹⁷ 275 F. 539, 543 (2d Cir. 1922).

¹¹⁸ 260 U.S. 689, 692 (1923).

¹¹⁹ *Id.*

¹²⁰ *Id.*

¹²¹ See *Weil*, 618 F. Supp. at 713; *Bell & Howell*, 548 F. Supp. at 1070; *Osawa*, 589 F. Supp. at 1170.

¹²² See *Derenberg*, *supra* note 103, at 734; *Beir*, *supra* note 102, at 58.

¹²³ The principle of territoriality has been accepted in the international realm as well with the Paris Convention for the Protection of Industrial Property which authorized territorial assignments of trademark rights subject to national law. See Paris Convention for the Protection of Industrial Property, March 20, 1883, *as revised*, art. 6(3), 21 U.S.T. 1583; 24 U.S.T. 2160, T.I.A.S. No. 6923, 7727, where it is stated that "a mark duly registered in a country of this Union shall be registered as independent of marks registered in other countries of the Union including the country of origin."

¹²⁴ See 15 U.S.C. § 1114(1)(a) *supra* note 94.

¹²⁵ See *Weil*, 618 F. Supp. at 706.

¹²⁶ *Id.* See also *Bell & Howell*, 548 F. Supp. at 1071. Congress evidently wished to make it clear

Courts have generally continued to apply the territoriality principle to grey market import cases.¹²⁷ The application of this principle to such cases has allowed courts to prohibit the importation of genuine goods by recognizing that such goods may indeed cause consumer confusion and thereby constitute trademark infringement.¹²⁸ One of the most recent cases in which a court has applied the territoriality principle to a grey market situation is *Weil Ceramics & Glass, Inc. v. Dash*.¹²⁹ In this case, the plaintiff was in the business of importing and distributing in the United States fine giftware bearing the trademark "Lladro."¹³⁰ The Spanish manufacturer of these goods designated the plaintiff as the exclusive United States distributor of "Lladro" porcelain and granted the plaintiff the right to obtain a United States trademark for the "Lladro" mark in the plaintiff's name.¹³¹ Some years later, the defendants began importing and selling in the United States genuine "Lladro" porcelain products which they had acquired from the Spanish manufacturer.

The court applied the territoriality principle as formulated in *Katzel* and rejected the defendants' contention that the public would not be deceived as to the goods' source of origin because they were genuine.¹³² The court stated that the better view was that genuine goods could cause public confusion when the domestic markholder had developed a separate and independent goodwill for the product, even if the source of origin of the plaintiff's and defendants' products was the same.¹³³

Similarly, the court in *Osawa & Co. v. B & H Photo*¹³⁴ applied the principle of territoriality. The court first observed that the older universality principle was seriously flawed.¹³⁵ Not only did the principle fail to recognize that legal rights within one country were created by that country's laws, but the principle failed to acknowledge that, within one coun-

that the use of trademarks which are likely to cause confusion or mistake of any kind even as to the identity of the person or entity which ensures the quality of the goods in the United States would be actionable under § 32. *Syntax Laboratories, Inc. v. Norwich Pharmaceutical Co.*, 437 F.2d 566, 568 (2d Cir. 1971); *Bell & Howell*, 548 F. Supp. at 1071; *Weil*, 618 F. Supp. at 706. Yet, even before Congress amended § 32, the term "source of origin" denoted the "party responsible for exercising judgment respecting the quality of goods it distributes" and not necessarily the manufacturer. *Bell & Howell*, 548 F. Supp. at 1070. Thus, Congress' action was undertaken simply to clarify this matter in order to avoid too narrow an interpretation of the statute. *Id.* at 1071; *Weil*, 618 F. Supp. at 706.

¹²⁷ See, e.g., *Weil*, 618 F. Supp. 700; *Osawa*, 589 F. Supp. 1163.

¹²⁸ *Id.*

¹²⁹ 618 F. Supp. 700.

¹³⁰ *Id.* at 702.

¹³¹ *Id.*

¹³² *Id.*

¹³³ *Id.* at 706.

¹³⁴ 589 F. Supp. 1163 (S.D.N.Y. 1984).

¹³⁵ *Id.* at 1172.

try, a trademark may represent a factually different goodwill from that which the mark may signify elsewhere.¹³⁶ To illustrate, the court posited a hypothetical in which a manufacturer in Japan made and sold a high-quality computer under its particular trademark. The product under this trademark had a good reputation in Japan and in several other countries where it was distributed and serviced under similarly high standards.¹³⁷ The court posited further that the United States distributor and trademark owner failed to maintain high standards by distributing damaged equipment and failing to provide essential services to the United States consumer.¹³⁸ The court concluded that, in the United States, the mark would have an entirely different meaning and value than it would elsewhere since the trademark not only identified the manufacturer, but the goodwill (or bad will in this instance) of the United States trademark owner.¹³⁹

The court elaborated further on the point that a trademark may have a different meaning in each country in which the local trademark owner has developed independent goodwill. The court described a scenario in which the United States trademark holder provided quality equipment and services, thereby earning an excellent reputation in the United States.¹⁴⁰ This reputation could be seriously injured, however, by importers of the trademarked product who did not provide the same quality equipment and services.¹⁴¹ Thus, if the United States mark owner were not able to prevent such importation, the goodwill and reputation developed in the United States would be severely damaged.¹⁴²

The court concluded that an infringement action may lie against importers of goods genuinely marked abroad.¹⁴³ In the *Osawa* case, after the plaintiff fulfilled its burden of showing an independent and separate goodwill and a likelihood of consumer confusion, the court granted the plaintiff a preliminary injunction preventing others from independently importing and selling goods of the same manufacture and bearing the same trademark.¹⁴⁴

¹³⁶ *Id.*

¹³⁷ *Id.*

¹³⁸ *Id.* at 1172-73.

¹³⁹ *Id.* at 1173.

¹⁴⁰ *Id.*

¹⁴¹ *Id.*

¹⁴² *Id.*

¹⁴³ *Id.* at 1179.

¹⁴⁴ *Id.*

3. *Can Genuine Goods cause Confusion under the
Territoriality Principle?*

Prior to *Weil* and *Osawa*, courts in other grey market cases wrote opinions which could be construed as rejecting the territoriality principle and, thereby, implicitly accepting the principle of universality.¹⁴⁵ In attempting to cut through the current issue confusion, the court in *Weil* described the present legal atmosphere as one in which the courts are split as to whether the territoriality principle operates so as to permit a finding that the importation of genuine goods may cause confusion and thus be deemed an infringement of trademark rights.¹⁴⁶ This Comment asserts that, upon closer examination, the courts may not be split on the application of the territoriality principle as stated in *Weil*.¹⁴⁷ Consequently, such decisions should not be considered as persuasive for the proposition that genuine goods cannot cause confusion so as to be deemed infringing.

a. *The Monte Carlo and El Greco decisions*

The first set of cases cited in *Weil* as rejecting the proposition that genuine goods may cause consumer confusion includes *Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp.*¹⁴⁸ and *El Greco Leather Products Co., Inc. v. Shoe World, Inc.*¹⁴⁹ In both cases the courts held that, when faced with the importation of genuine products from abroad, a plaintiff domestic trademark owner did not have a cause of action for trademark infringement.

In *Monte Carlo*, the plaintiff sold and distributed in the United States shirts which it procured from a Korean shirt manufacturer.¹⁵⁰ In this particular instance, the plaintiff contracted with the defendant to purchase mens' shirts to be manufactured to the plaintiff's specifications and bearing the plaintiff's label.¹⁵¹ After the Korean manufacturer completed the shirts and shipped them to the United States, the plaintiff refused to accept them because certain documents needed to clear the shipment at customs failed to arrive in time for Christmas sales.¹⁵² A United States subsidiary of the Korean manufacturer subsequently

¹⁴⁵ See *Monte Carlo*, 707 F.2d 1354; *El Greco*, 599 F. Supp. 1380; *DEP*, 622 F.2d 621; *Bell & Howell*, 719 F.2d 1054.

¹⁴⁶ 618 F. Supp. at 706.

¹⁴⁷ See *infra* notes 148-89 and accompanying text.

¹⁴⁸ 707 F.2d 1354 (9th Cir. 1982).

¹⁴⁹ 599 F. Supp. 1380.

¹⁵⁰ 707 F.2d at 1355.

¹⁵¹ *Id.*

¹⁵² *Id.*

purchased the shirts from the manufacturer and sold them without the plaintiff's permission to discount retailers with the plaintiff's labels and packaging still intact.¹⁵³

The court in *Monte Carlo* held that the case did not present an instance of trademark infringement.¹⁵⁴ The court emphasized that it was treating the issue as a very narrow one, concerning itself only with the question of "whether the unauthorized sale of a genuine, unaltered product initially manufactured for the plaintiff can form the subject of a trademark claim."¹⁵⁵ The court stated that the goods were "the genuine products, planned and sponsored by the plaintiff shirt company and produced for it on contract for future sale."¹⁵⁶ The court distinguished the situation in *Monte Carlo* from that in *Katzel*, stating that *Katzel* "did not involve plaintiff's genuine goods but rather goods produced by the owner of the plaintiff's trademark in a foreign country."¹⁵⁷ The court emphasized that, in *Katzel*, there may have been harm to the plaintiff from the inability to control the quality of the foreign producer's goods, but in *Monte Carlo* the goods were, in fact, ordered and sponsored by the plaintiff.¹⁵⁸

Similarly, in *El Greco*, the court concluded that the unauthorized importation and sale of genuine goods did not constitute trademark infringement.¹⁵⁹ In this case, the plaintiff, the owner of the United States trademark "Candies," engaged foreign manufacturers to make shoes under the "Candies" trademark.¹⁶⁰ On one occasion the plaintiff rejected the shipment of shoes having a certain style number because the shipment was late. Subsequently, the defendant purchased the shoes from the Brazilian manufacturer and sold them in the United States.¹⁶¹

The court in *El Greco* cited the *Monte Carlo* decision with approval, stating that the shoes in the *El Greco* case, like the shirts in *Monte Carlo*, originally were planned and sponsored by the plaintiff.¹⁶² Moreover, the court noted that, as with the shirt orders in *Monte Carlo*, the plaintiff in *El Greco* did not cancel the shoe orders because of substandard manufacture or poor quality, but merely because the goods arrived late.¹⁶³ As

¹⁵³ *Id.*

¹⁵⁴ *Id.* at 1358.

¹⁵⁵ *Id.* at 1357 n.3.

¹⁵⁶ *Id.* at 1358.

¹⁵⁷ *Id.* at 1357 n.3.

¹⁵⁸ *Id.*

¹⁵⁹ 599 F. Supp. at 1394.

¹⁶⁰ *Id.* at 1384.

¹⁶¹ *Id.*

¹⁶² *Id.* at 1393.

¹⁶³ *Id.*

these products were genuine goods originally ordered by the plaintiff and ultimately produced without defect, the court concluded that there could be no public confusion and, therefore, no trademark infringement.¹⁶⁴

The courts in *Monte Carlo* and *El Greco* both concluded that the importation of genuine goods cannot cause the confusion necessary to constitute trademark infringement.¹⁶⁵ Taken out of context, such a conclusion could be interpreted as rejecting the territoriality principle and thus precluding a finding that genuine goods can cause confusion and thereby infringe the rights of a domestic trademark owner.

However, the findings of these two courts must be considered within the context of the peculiar facts in each case. Both *Monte Carlo* and *El Greco* involved goods specifically ordered and approved by the plaintiff domestic markholder. In addition, these goods apparently were manufactured to the satisfaction of the domestic markholder, the rejection of the goods being based only on late delivery. Thus, when the courts used the term "genuine goods" in these cases, they used it in its narrowest sense. The courts defined the term as it related to goods manufactured at the request and with the sponsorship of the plaintiff and, at some point in time, designated those goods as belonging to the plaintiff. This definition is much narrower than the definition generally given to that term. In most circumstances, "genuine goods" refers to all goods which are produced in a foreign country and which bear a trademark identical to that of the plaintiff domestic mark owner regardless of whether the goods were manufactured or designated especially for the plaintiff.¹⁶⁶

That the definition of "genuine goods" used by the courts in these cases is narrower than the definition generally employed is evidenced by the court in *Monte Carlo* describing *Katzel* as a case not involving "genuine goods."¹⁶⁷ The court in *Katzel*, however, considered the goods to be genuine.¹⁶⁸ Moreover, the goods in *Katzel* have continued to be characterized as genuine by subsequent courts¹⁶⁹ and commentators¹⁷⁰ inter-

¹⁶⁴ *Id.* at 1394.

¹⁶⁵ See *Monte Carlo*, 707 F.2d at 1058; *El Greco*, 599 F. Supp. at 1394.

¹⁶⁶ See *Katzel*, 260 U.S. 689; *Bell & Howell*, 548 F. Supp. 1063; *Osawa*, 589 F. Supp. 1164; *Weil*, 618 F. Supp. 700. See also Vandenburg, *The Problem of Importation of Genuinely Marked Goods is Not a Trademark Problem*, 49 TRADEMARK REP. 707, 713 (1959)(defining genuine goods as those goods which bear marks signifying the same source of origin as that which the mark normally represents to the public).

¹⁶⁷ *Id.* at 1057 n.3.

¹⁶⁸ See *Katzel*, 260 U.S. 689.

¹⁶⁹ See, e.g., *Weil*, 618 F. Supp. 700; *Osawa*, 589 F. Supp. 1164; *Bell & Howell*, 548 F. Supp. 1063.

¹⁷⁰ See e.g., R. CALLMAN, *supra* note 105, § 21.17; Bier, *supra* note 102, at 48.

preting the case, despite the fact that the goods were not manufactured specifically for the plaintiff.

Consequently, these two cases do not necessarily reject the proposition that "genuine goods," as the term is typically defined, can cause confusion. Rather, *Monte Carlo* and *El Greco* can be viewed as cases which merely redefine the term "genuine goods" to encompass a narrower and more limited group of goods. *Monte Carlo* and *El Greco* should not be viewed as rejecting the well-established territoriality principle in all cases involving genuine goods. The cases are properly interpreted as the refusal of two courts to extend the principle to particular situations in which goods are manufactured specifically for the plaintiffs. This interpretation of "genuine goods" constitutes a rather small subset of those types of goods which generally have been understood to be genuine goods.¹⁷¹

b. The *DEP* and *Bell & Howell* decisions

Two other cases cited in *Weil*¹⁷² as expressing skepticism that genuine goods can cause confusion under the territoriality principle are *DEP Corp. v. Interstate Cigar, Co.*¹⁷³ and *Bell & Howell*.¹⁷⁴ In *DEP*, the plaintiff obtained from a British corporation holding worldwide distribution rights to "Pears" soap, the exclusive right to distribute "Pears" products in the United States.¹⁷⁵ The district court dismissed the plaintiff's complaint on the ground that the plaintiff lacked standing to sue since it was not the owner of the trademark.¹⁷⁶ The Court of Appeals affirmed the district court's decision dismissing the case, but stated in dictum¹⁷⁷ that it appeared anomalous for an infringement action to lie where the goods involved were genuine and not spurious.¹⁷⁸

In *Bell & Howell*, the Court of Appeals for the Second Circuit vacated an injunction granted in favor of the plaintiff by the district

¹⁷¹ It may be argued, however, that "genuine goods" even defined narrowly as in *Monte Carlo* and *El Greco* may nevertheless cause confusion according to the territoriality principle. Furthermore, one could assert that one of the reasons for the application of the territoriality principle; i.e., one of protection of the domestic markholder's goodwill from a third-party importer's failure to provide the necessary warranties and servicing for the product, is present in the *Monte Carlo* and *El Greco* cases as well.

¹⁷² 618 F. Supp. at 706.

¹⁷³ 622 F.2d 621.

¹⁷⁴ 719 F.2d 42.

¹⁷⁵ See *DEP*, 622 F.2d at 622.

¹⁷⁶ *Id.*

¹⁷⁷ When confronted with the argument made by the plaintiff that, according to *Katzel*, an infringement action may be brought against an importer of genuine goods, the court specifically stated that it need not consider that issue because the plaintiff lacked standing to sue. *Id.* at 622 n.1.

¹⁷⁸ *Id.*

court.¹⁷⁹ The district court found that the plaintiff had established goodwill separate from that of the original manufacturer and that the defendant's importation and sale of goods bearing the identical trademark was likely to cause consumer confusion.¹⁸⁰ Based upon these findings and relying on the principle of territoriality as expressed in *Katzel*, the district court issued a preliminary injunction¹⁸¹ against the defendant.

The Court of Appeals reversed, vacating the preliminary injunction because the plaintiff did not make a showing of irreparable harm as required for the issuance of an injunction.¹⁸² The court stated that:

irreparable injury may well not be present herein since there would be little confusion, if any, as to the origin of the goods and no significant likelihood of damage to [the plaintiff's] reputation since thus far it has not been shown that [the defendant's] goods which have a common origin of manufacture with [the plaintiff's] goods are inferior to those sold by [the plaintiff] and injuring [the plaintiff's] reputation.¹⁸³

Although *DEP* and *Bell & Howell* are cited in *Weil* as "cases which have concluded that genuine goods cannot cause confusion,"¹⁸⁴ it may be argued that these two decisions do not fit such an interpretation. First, while it must be conceded that the *DEP* court expressed skepticism as to the validity of an infringement action brought against a third-party importer and seller of genuine goods, the statement quoted above from the *Bell & Howell* court should not be construed as expressing such skepticism. The court in *Bell & Howell* stated that there was no showing of irreparable injury because, among other things, there was little confusion as to the origin of the goods. The court used the word "origin" in its narrowest sense: the place of manufacture. This interpretation becomes apparent when, later in the same paragraph, the court describes the goods imported by both the plaintiff and defendant as having "a common origin of manufacture."¹⁸⁵ By recognizing that there was no confusion as to the place of manufacture, the court was not necessarily stating that confusion could not possibly exist as to the person standing behind or

¹⁷⁹ 719 F.2d at 46.

¹⁸⁰ 548 F. Supp. at 1079.

¹⁸¹ In order for a preliminary injunction to be granted in this case, the party seeking the injunction needed to "make a showing of (a) irreparable harm and (b) either (1) likelihood of success on the merits or (2) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of the hardships tipping decidedly toward the party requesting preliminary relief." *Bell & Howell*, 719 F.2d at 45 (quoting *Jackson Dairy, Inc. v. H.P. Hood & Sons, Inc.*, 596 F.2d 70, 72 (2d Cir. 1979)).

¹⁸² *Id.* at 46.

¹⁸³ *Id.*

¹⁸⁴ 618 F. Supp. at 706.

¹⁸⁵ *Bell & Howell*, 719 F.2d at 46.

sponsoring the product in the United States.¹⁸⁶ Furthermore, the court recognized that such confusion could exist when it stated that a possible remedy for any confusion resulting from the parties' warranty differences would be to label the defendant's goods as lacking all such warranties.¹⁸⁷

In sum, the court did not say, as the *Weil* court apparently interpreted it, that confusion in cases involving genuine goods could not exist. Instead, the court in *Bell & Howell* was merely stating that a showing of confusion sufficient to establish irreparable harm had not been made because the genuine goods sold by the defendant were not inferior to the plaintiff's goods and the sale of the goods by the defendant did not harm the plaintiff's established reputation. Absent a showing of such harm, the court could not issue an injunction against further importation of the defendant's goods.

Furthermore, even though the court in *DEP* explicitly questioned the proposition that a trademark infringement action could lie against an importer and seller of genuine goods, and even if the *Bell & Howell* decision can be construed as expressing similar skepticism, the statements in these cases which have been interpreted as expressing such doubt are undeniably dicta. The courts reached the explicit conclusion in *DEP* and the arguably implicit conclusion in *Bell & Howell* without any analysis, by either court, of the relevant underlying and controlling principles of trademark law. Indeed, both courts made it quite clear that they were not addressing the substantive legal issues presented in each case.¹⁸⁸

The court in *Weil* interprets these cases as concluding that genuine goods can never cause confusion. Indeed, the *Weil* court states that these cases rely implicitly "on a principle of trademark law which has long since [*Katzel*] been rejected" and are "based on a simplistic interpretation of the confusion requirement which cannot be squared with the Act."¹⁸⁹ Neither *DEP* nor the *Bell & Howell* case reached the conclusion that genuine goods cannot cause confusion nor did either adopt an interpretation of the confusion requirement. Thus, while the court in *Weil* seems somewhat concerned with the presence of these cases, neither of the decisions should cause a court to question the validity of the territoriality principle and its underlying proposition that genuine goods can be held likely to cause confusion to the public.

The application of the territoriality principle does not necessarily

¹⁸⁶ *Id.* See also R. CALLMAN, *supra* note 105, § 21.07, for a general discussion about consumer confusion as to origin and sponsorship.

¹⁸⁷ *Bell & Howell*, 719 F.2d at 46.

¹⁸⁸ *Id.*; see also *DEP*, 622 F.2d at 622 n.1.

¹⁸⁹ *Weil*, 618 F. Supp. at 706.

result in a finding of confusion. The existence of "likelihood of confusion" involves a separate determination. This principle merely allows a court to make such a determination. Given that the principle of territoriality is the prevailing view of trademark law, a court should not be wary of applying the principle to genuine goods cases even though other decisions have been read as casting doubt upon the principle's applicability. While the application of this principle does not solve the problems posed by the importation of genuine goods,¹⁹⁰ it allows a court deciding a grey market case to begin its analysis on familiar footing, using traditional trademark principles as a guide.

III. CONCLUSION

This Comment has attempted to review the alternative courses of action available to a United States trademark owner confronted with the importation of genuine goods manufactured abroad. In so doing, the Comment has discussed the many obstacles faced by a United States trademark owner in trying to prohibit the importation of grey market goods. The Comment has also noted the difficulties faced by the United States Customs Service in implementing the statute dealing with the importation of genuine goods as well as the courts in applying traditional trademark law in private actions brought against importers of these goods.

Some of the problems identified in this Comment could be solved by reading § 526 literally, thereby prohibiting the importation of all grey market goods absent the consent of the domestic trademark owner. However, with the courts split on this issue, many domestic trademark owners will be required to seek relief in private actions in district courts. Often involving traditional trademark law and analysis, these cases pose special problems for both the domestic trademark holder and the courts. These problems will become more serious unless courts pay the utmost attention to the mandates of traditional trademark principles and make careful application of these principles to the wide factual variations which the courts will be certain to encounter in these cases.

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¹⁹⁰ See *Bier*, *supra* note 102, at 61.